

## ASX ANNOUNCEMENT FOR PTL

27 August 2019

### PENTAL LIMITED 2019 FULL YEAR FINANCIAL RESULTS

#### New products and distribution deals drive revenue to sustain Pental profitability

##### FY 19 Highlights

- Sales Revenue (Net Sales Revenue) increased 32.7% to \$100.446 million
- Underlying EBIT (Earnings Before Interest and Tax) increased 32.5% to \$5.014 million
- Underlying Net Profit after tax of \$3.451 million, up 32.6% on previous corresponding period
- Statutory/Reported Net Profit After Tax of \$1.921 million, versus loss of \$27.839 million in previous corresponding period
- Net cash position \$0.246 million – company remains debt free
- Underlying Basic Earnings Per Share 2.53 cents
- Final fully franked dividend declared 1.30 cents per ordinary share (payable on 27 September 2019 with a record date of 9 September 2019), bringing the total dividend for FY19 to 2.0 cents versus 1.5 cents in FY18.

Pental Limited (Pental) today announced a statutory net profit after tax of \$1.921 million for the full year ended 30 June 2019 ('FY19'), compared to a loss of \$27.839 million in the previous corresponding period (pcp). Net sales revenue was \$100.446 million, up 32.76% (FY18: \$75.667 million). Underlying EBIT increased 32.5% to \$5.014 million excluding non-cash impairments.

Pental's earnings growth was driven by key distribution agreements with Unilever's Pears soap range and the successful integration of Berkshire Hathaway's Duracell range of batteries across Australia and New Zealand.

##### Overview of FY 19 trading performance

- Gross sales revenue of \$153.986 million was up 42.0% or \$45.559 million on last year.
- Gross sales in Australia were up 53.9% or \$46.446 million on last year predominantly due to the addition of the Duracell distributorship. Excluding Duracell, gross sales were down \$6.389 million (-7.4%) compared to prior year reflecting the challenging consumer goods environment. Whilst branded gross sales grew in bleach (+2.0%), cleaners (+2.0%), fabric softeners (+39.1%) and firelighters (+2.5%), sales declined in bar soaps (-20.3%) & toilet (-17.5%) categories due to consumer preferences and competitive and price deflationary market conditions. Private Label business grew by 2.6% led by growth in bleach, fabric softeners and firelighters putting pressure on Pental brands.
- In New Zealand, gross sales revenue was down NZ\$1.588 million on last year or 7.2% driven by persistent price competition in manual dishwash (-11.5%) and toilet (-7.6%) categories. However, sales remained firm in bleach (+0.4%), cleaners (+1.8%) and firelighters (+2.8%). Pental's share of the New Zealand market in several categories such as Toilet, Household Cleaning and Dishwash remains strong.
- Exports to Asia were \$1.9 million for the period, in line with prior year. Consolidation of a number of small distributors resulted in margin improvements for personal care and cleaning products in China. Pental continues to explore and progress partnerships with well-established distributors in China aiming to reach a large consumer base.

- Trade spend (rebates and discounts) of \$53.540 million was 63.43% higher than prior year (FY18: \$32.760 million) and the ratio of trade spend to gross sales increased by 4.56% to 34.77%. This was predominantly a result of the Duracell business which attracts higher trade spend than Pental's other products due to the category's rebate structures. Excluding Duracell, ratio of trade spend to gross sales improved in Australia as a result of focused promotional plans which generated healthy uplifts with positive margins. Trade spend in New Zealand increased marginally as a result of price matching initiatives in the dishwasher category to protect market share.
- The three-year Duracell distributorship commenced in Australia and New Zealand in September 2018, with an efficient transition moving the brand into supermarkets and pharmacies within weeks of commencing the distribution agreement. Sales were steady and supported by the seasonal uptake in battery sales during the Christmas period. The Company was successful in securing ranging in Coles Express stores from February 2019.
- Pental continued its focus on efficiency improvements whilst rationalising costs. As a result:
  - At the Shepparton manufacturing site, gas costs were down \$0.174 million.
  - Electricity costs remained in line with last year despite rates increasing by 7.5%, after offsetting the impact by switching to LED floor lights at the Shepparton site.
  - Savings of \$0.542 million flowed through on indirect wages following a staff restructure in 2018, even after absorbing the impact of additional Duracell business.

However, these significant savings were partly offset by:

- Freight out and distribution costs were up \$0.700 million driven by additional Duracell volume. However, due to the high value, low space nature of batteries, ratio of freight out to gross sales improved from 4.91% in prior year to 3.91% in the reported period.
- Wages relating to warehousing & distribution increased by \$0.114 million predominantly as a result of additional Duracell volume.
- Net cash used in operating activities was \$2.430 million (2018: Net cash provided by operating activities \$7.310 million) predominantly driven by working capital requirements of Duracell business. Excluding impact of Duracell distributorship, total working capital improved on prior period by \$1.451 million.
- Net working capital (receivables, inventories less trade and other payables) of \$23.377 million was higher than prior by \$9.374 million driven by Duracell distributorship. Pental's debtors' position continues to be strong, with minimal over dues as at the reporting date.
- Capital investment of \$2.189 million supported initiatives undertaken during the FY19 year and included upgrading boilers at Shepparton resulting in significant gas savings and replacement of one liquid filling line with a new liquids line also underway as at the reporting date.
- The company's closing net cash position of \$0.246 million was debt free.
- The Company executed its brand consolidation strategy by co-branding its Lux and Martha's brand names under the Softly umbrella to build a strong laundry care portfolio. This consolidation strategy enabled Pental to protect its shelf space by increasing presence of Softly brand while supporting the brand more economically due to scale. Early sales data supports this strategy as co-branded product sales have increased in the first 5 months. As per the applicable accounting standards, the company has taken a non-cash impairment charge of \$0.51 million (net of tax) on Lux and Martha's brand names in FY19. The company has also taken a further non-cash impairment charge of \$1.02 million (net of tax) on its Country Life and Hi Speed brand names reflecting a sustained change in market conditions and consumer behaviours.

Details of the reported statutory and underlying result for the Group are as follows:

	FY19 (i) \$'000	FY18 (i) \$'000	% Change
<b>Reconciliation of reported statutory profit to underlying profit</b>			
<b>Underlying EBITDA</b>	<b>8,330</b>	<b>7,342</b>	13.5%
Depreciation and amortisation	(3,316)	(3,559)	
<b>Underlying EBIT</b>	<b>5,014</b>	<b>3,783</b>	32.5%
Finance costs	(73)	(40)	
<b>Underlying profit before tax</b>	<b>4,941</b>	<b>3,743</b>	32.0%
Underlying income tax expense	(1,490)	(1,141)	
<b>Underlying net profit after tax</b>	<b>3,451</b>	<b>2,602</b>	32.6%
<b>Significant items (net of tax):</b>			
Impairment of brandnames (net of tax)	(1,530)	-	
Impairment of goodwill (ii)	-	(29,446)	
ACCC Penalty and Costs (iii)	-	(995)	
<b>Reported profit / (loss) after tax</b>	<b>1,921</b>	<b>(27,839)</b>	+ 100%

<sup>(i)</sup> Non-IFRS financial table

<sup>(ii)</sup> Impairment of goodwill in prior period is not tax deductible

<sup>(iii)</sup> Penalty of \$700 thousand in prior period is not tax deductible

### Leveraging our expertise to manage brands

Pental is a proud Australian company with a diverse portfolio of iconic brands that are found in households across Australia, New Zealand and Asia, many of which have been used by families for generations.

A key platform of its growth strategy is to pursue direct distribution businesses to add scale and improve profitability. The successful addition of the Duracell distributorship to Pental's stable of brands was instrumental in driving the Company's performance this year, coupled with Pears soap distribution which is in its fifth year.

CEO of Pental, Charlie McLeish said: "These results show that we are heading in the right direction by leveraging our fully integrated distribution and supply chain model - all the way from manufacturing through to consumers' households - which offers tremendous value to our brands and other brands seeking to enter the Australian market. Managing brands is what we can offer through our network, adding scale and increasing efficiencies further, and thereby creating the opportunity for greater returns to shareholders."

For more than sixty years, Pental has capitalised on its reputation for producing quality Australian-made brands at its manufacturing base in the regional Victorian town of Shepparton, leveraging increasing consumer preference for locally made products. The site has been developed further with secure, state-of-the-art warehousing and distribution facilities including Electronic Data Interchange for major distribution customers.

"We are the largest Australian manufacturer of bar soaps, liquid bleach and firelighter cubes with four different production plants. We continue to invest in our manufacturing and distribution capability to create better efficiencies and future-proof our business. Our expertise is also attracting both private label and branded growth contracts," said Mr McLeish.

In a highly competitive market, where private label continues to grow, Pental's brands remain well-placed enjoying strong market shares in categories such as toilet, household cleaning and dishwasher in New Zealand while in

Australia White King bleach<sup>1</sup> and White King Lemon toilet gel<sup>2</sup> retain their #1 position in grocery along with the Jiffy<sup>1</sup> and Softly<sup>1</sup> brands in their segments.

More progress was made in Pental's value generation strategy with a new arrangement to supply Pears and Country Life Tradie Soap to Australia's largest pharmacy retail chain, Chemist Warehouse.

"Our ability to innovate new products from our trusted and established brands provides us with a faster track to winning a share of household spending," said Mr McLeish.

Four new Huggie fabric softener choices were released through Woolworths this year, each offering time, energy and water saving outcomes such as faster drying of clothes, easy ironing, wrinkle release qualities and better softening for clothes in fast wash cycles. Other product innovations brought to market include a Velvet Bloom Beauty Bar, four new toilet cleaning products released in IGA supermarkets and the new Country Life Tradies Soap Bar released through Chemist Warehouse. Four new Pears products were also ranged by Chemist Warehouse providing consumers with more choice in trusted soap brands.

## Outlook

Intense competition and price cutting in the consumer goods market is expected to continue in the medium to long term.

Pental will continue to support its own trusted brands such as White King, Country Life, Janola, Softly and Huggie with strong investment in field and merchandising support.

Product innovation will be a key to Pental's long term success, and the Company is exploring opportunities to introduce further product extensions, similar to the successful Huggie variants released through IGA and Woolworths this year.

The Company is also working with key customers to execute a brand realignment strategy with Softly within the laundry liquid segment, focused on Softly as the brand for those who love their clothes.

Continuous improvement initiatives at the Shepparton plant will drive increased efficiencies and cost improvements.

In a further step towards export growth, Pental is currently negotiating terms of trade with distributors in Asia to provide additional volume into the markets where high quality Australian brands are well regarded.

Pental's strategic distribution partnerships with Duracell and Pears will support sustainable profitability and additional partnership opportunities are currently being explored as the company sets its direction for continued growth through managing brands.

-ENDS-

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## About Pental Limited

*Wherever you go in an Australian and New Zealand home today it would be odd not to find at least one Pental product. White King, Janola, Sunlight, Softly, Country Life, Velvet, Martha's, Huggie, Pears, LUX, Little Lucifer and Jiffy form the iconic brand portfolio. All created to make everyday life that much easier- that much simpler. The Pental tradition of providing our customers with products of superior quality continues with constant product innovation and improvements. Pental – Trusted by families for generations. More information on Pental is available at: [www.pental.com.au](http://www.pental.com.au)*

*'Trusted brands since 1856'*

<sup>1</sup> Based on Aztec data MAT 6/01/19

<sup>2</sup> Based on Aztec data MAT 22/07/19

